

Testimony of William M. Daley  
Secretary of Commerce  
Regarding PNTR for China

before the  
Senate Commerce, Science and Transportation Committee

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Mr. Chairman, Senator Hollings, members of the Committee, thank you for the opportunity to testify today on the benefits to America of China's accession to the World Trade Organization (WTO). On Saturday, I returned from a trip to Beijing where I co-chaired the 13<sup>th</sup> Session of the U.S.-China Joint Commission on Commerce and Trade (JCCT). The JCCT is a government-to-government forum developed to promote U.S.-China commercial cooperation. Last week we met to discuss China's ongoing reform efforts and ways to enhance China's transition to a rules-based global trading system. Obviously a lot of the discussion centered on China's pending application to join the WTO and on our process for deciding whether to grant Permanent Normal Trade Relations (PNTR).

This was my third visit to China during my tenure as Secretary of Commerce. Much has changed even in the few years that I have been traveling there. The signs of a nascent transition to a market-based economy are evident everywhere in increased private ownership of businesses, more freedom for the Chinese to choose their own places of employment, and the return of privately owned farms. Over twenty years of domestic reforms have enabled China to lift more than 200 million people out of absolute poverty. Wireless communications has put cell phones in the hands of 40 million Chinese (only a fraction of the potential market) and given them access to a world of ideas and influences.

But many problems exist. High unemployment, inefficient state-run enterprises and corruption continue to plague the Chinese economy. As a result, economic growth has slowed.

The Chinese leadership has recognized the need to open its market to global competition in order to be able to build a modern, successful economy. One of the best indicators of the commitment of the Chinese leadership to a more open economy is its desire to take on the challenges and obligations of WTO membership. I am here today to discuss with you how supporting PNTR status for China can move China toward a more open economy.

Last November, after 13 years of negotiations, the United States and China reached a bilateral agreement on the terms and conditions of China's entry into the WTO. China made significant and far-reaching market access and trade concessions that will benefit American exporters and import

sensitive industries across a broad range of industrial goods, services and agriculture. It contains strong enforcement mechanisms and strong protections against unfair trade. American exporters stand to benefit immediately. China has agreed to begin opening its markets in virtually every sector immediately upon accession. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases only one-to-three years.

In contrast to China's historic set of commitments, we have only one obligation, and that is to maintain the market access policies we already apply to China by granting it Permanent Normal Trade Relations status.

There is no doubt that this agreement is a great opportunity for American businesses, workers and farmers. It will provide unprecedented access to a largely untapped market of over one billion consumers. The benefits for the U.S. are widespread, including significant opportunities for small and medium size businesses. SMEs are responsible for a growing share of U.S. exports to China.

Last week, 47 Governors sent a letter to Senators and Members of the House expressing how important they believe passage of China PNTR is to maintaining the economic growth and prosperity of families in their states and territories. These Governors know this is a good economic deal for America. They do not want America to be left behind.

Yet this agreement goes beyond economics. As President Clinton has said, this represents the most significant opportunity that the United States has had to create positive change in China since President Nixon's visit there in the early 1970s. As a world leader we have an obligation to foster further reform in China. Encouraging China to join the rules-based world trading system gives it a greater stake in the stability and prosperity of its regional neighbors and the rest of the world. It will create a better, more stable, safer world.

Now, let me highlight some of the terms of our bilateral agreement on China's accession to the WTO. Attached to my testimony is a more detailed summary of the terms of the agreement. In addition, over 45 industry specific fact sheets, 50 state-specific reports, and other detailed information are available on our Web site at [www.chinapntr.gov](http://www.chinapntr.gov).

### Industrial Goods

China has agreed to cut tariffs from an average of 24.6 percent to an average of 9.4 percent overall and 7.1 percent on U.S. priority products. China will make substantial cuts immediately with further cuts phased in, most within five years. These cuts will benefit a wide range of U.S. products from automobiles, to chemicals to wood products. China will also eliminate all import quotas and non-automatic licensing requirements for industrial goods. For example, China will participate in the Information Technology Agreement, eliminating tariffs and quotas on information technology products such as semiconductors, telecommunications equipment, computers and computer equipment and other items by 2003, in most cases, and 2005 in a few others. Last week, nearly 200 high tech industry CEOs wrote to Members of Congress urging support for PNTR for China and identifying it as a

absolute priority for high-tech companies...@ and the A...most critical vote you will make in support of our high technology industries this year.@"

### Services

This agreement does more than lower tariffs substantially. Equally important to U.S. industry is the agreement by China to allow U.S. firms to engage in trade (importing and exporting) and the full range of distribution services including wholesale, retail, repair and transport, for their products in China. At present, China prohibits foreign firms from distributing imported products or providing after-sale services such as repair and maintenance, unless they have invested in China.

China has made significant commitments to phase out most restrictions in a broad range of service sectors in addition to distribution, including banking, insurance and telecommunications. Also liberalized are professional services such as accountancy and legal consulting, business and computer-related services, motion pictures and video and sound recording services. China will also take on the obligations contained in the Basic Telecommunications and Financial Services Agreements.

### Agriculture

The WTO accession bilateral agreement provides increased access for U.S. agricultural exports across a broad range of commodities and eliminates non-tariff barriers that have kept U.S. farmers out of this huge market. On U.S. priority agricultural products, tariffs will drop from an average of 31 percent to 14 percent by January 2004, with even sharper drops for beef, poultry, pork, cheese and other commodities. China will also create new tariff rate quotas that will significantly expand export opportunities for U.S. wheat, corn, rice and other bulk commodities farmers. U.S. exporters will also gain the right to sell virtually all products freely inside China without going through state trading enterprises or other middlemen. Right now, the average man, woman, and child in China consumes less than a dollar's worth of American agricultural goods a year. Looking to the future, China will account for nearly 40 percent of the growth of U.S. agricultural exports.

In addition to the benefits of WTO accession, we will have substantial export opportunities through the 1999 U.S.-China Agreement on Agricultural Cooperation. This Agreement provides the terms for the removal of scientifically unjustified restrictions on importation of U.S. wheat and other grains, citrus, and meat. Already, we have seen China make historic purchases of all three commodities in the last few months as a result of this Cooperation Agreement. Completing this Agreement are Chinese WTO commitments to permit trading and distribution rights.

## Safeguards and Enforcement

In addition to unprecedented access to the vast Chinese market, we negotiated additional terms to ensure that we gain the full benefits of our agreement and that China lives up to its commitments. China has agreed to a number of provisions that go to the core of the closed Chinese economy and that will result in real and effective market access. These special provisions address issues raised by the high degree of government involvement in the Chinese economy and by industrial policy measures, such as local content, offsets, export performance, and forced technology transfer requirements. These provisions were sought to address the legitimate concerns raised by Members of Congress, Democratic and Republican alike.

The agreed provisions include special protections to guard against import surges from China. China has agreed to a 12-year product-specific safeguard provision which ensures that the United States can take effective action in case of increased exports from China which cause market disruption in the United States. This applies to all industries, permits us to act on a lower showing of injury to domestic industry than under existing safeguard law and allows us to act specifically against imports from China. This safeguard provision is in addition to existing safeguard actions authorized under Section 201.

We have also ensured that American firms and workers will have strong protection against unfair trade practices, including dumping. China has agreed to guarantee our right to continue using our current methodology (treating China as a non-market economy) in antidumping cases for fifteen years after China's accession to the WTO.

The agreement will also require China to reform a number of internal policies which force foreign companies to locate operations in China and give up valuable intellectual property rights as conditions of doing business. The agreement will eliminate unfair practices such as mandated offsets, local content and various investment performance requirements. China will take on the obligations of the WTO Agreement on Trade-Related Investment Measures. This will make it easier for U.S. companies to export to China from home rather than forcing companies to set up in China in order to sell their products there. Forced technology transfers will also be eliminated as a condition of investment, better enabling U.S. companies to protect their investment in R&D. China has agreed to stop enforcement of such practices in existing contracts immediately upon accession.

The agreement contains effective enforcement tools to ensure China meets its obligations. For the first time, China's trade commitments will be enforceable through a binding WTO dispute settlement, subjecting its actions to impartial review, and ultimately sanctions if necessary. The multilateral nature of the WTO also strengthens our enforcement capabilities. And the significance for China is great -- its economic decisions will be subject to multilateral trade review, which will provide us additional leverage in resolving future trade disagreements with China.

Our bilateral agreement with China is highly specific with clear timetables for implementation and firm end-dates for full compliance. When copies of the agreement were handed out to Members of Congress, some members commented that the text looked more like a spread sheet with its defined tariff rates, dates certain and concrete obligations. This was intentional and reflects past experience with trying to enforce trade agreements with China. The specificity of China's commitments in this bilateral agreement will strengthen our ability to monitor and demand compliance.

The Administration intends to vigorously monitor and aggressively enforce the terms of this agreement. Our commitment to do so is reflected in the President's budget request for a \$22 million increase in new compliance and enforcement resources for Commerce, USTR, USDA and the State Department. For example, the President's new initiative would triple resources dedicated to China trade compliance here at the Department of Commerce -- including administration of our unfair trade laws. For the first time, Commerce and State will have compliance officers on the ground in China devoted exclusively to trade law enforcement and trade compliance.

We also have retained the right to use the full range of existing United States trade laws, including Special 301 (intellectual property rights protection), Section 301 (unfair trade practices), and, of course, our antidumping laws. It also is important to emphasize that nothing in this agreement undermines our ability to continue to block imports of goods made with prison labor, to maintain our export control policies, or to withdraw trade benefits, including NTR itself, in case of a national security emergency.

### A More Open China

The President has made clear that supporting China's accession into the WTO does not mean a tacit endorsement of China's human rights policies. We will continue to denounce China's persecution of its citizens for their political or religious beliefs. Two weeks ago, Secretary of State Albright personally presented a resolution condemning China's human rights record to the United Nations' Human Rights Commission in Geneva. We will not hesitate to use our authority to sanction China under the International Religious Freedom Act as we did last year. We will also continue to pursue our foreign policy goals with China in a number of important areas such as non-proliferation and global climate change. Our stance on a peaceful resolution of issues between China and Taiwan will not change.

It is significant that many of those most supportive of a more open, democratic China support its membership in the WTO. The newly elected leader of Taiwan, Chen Shui-bian, supports normalizing trade relations between the United States and China. Martin Lee, the leader of Hong Kong's Democracy Party, recently said "The participation of China in the WTO would not only have economic and political benefits, but it would serve to bolster those in China who understand that the country must embrace the rule of law." A longtime Chinese dissident leader, Ren Wandong, declared in support of the China's WTO membership "Before the sky was black, now it is light. This can be a new beginning."

By seeking to join the WTO, China has undertaken to deepen its market reforms and open its economy to the rest of the world. It has agreed to adhere to international trade rules and subject its actions to

WTO dispute settlement. It's clear that this has not been an easy choice for its leaders. They understand that opening their borders to foreign goods, services and investors opens the door wide to new ideas and ideals they can not control. They have made the decision to take this risk. We should encourage China to choose the path of reform and involvement with the rest of the world. Bringing China into the WTO will make a significant difference.

The possibility of positive change is illustrated by the great potential of the telecommunications market in China. Some analysts predict that China will become the world's second largest personal computer market by the end of this year and the third largest semiconductor market by 2001. It is already the world's fastest growing telecommunications market. In 1999 alone, the number of Chinese Internet users quadrupled, jumping from 2 million at the beginning of the year to 9 million. Growth predictions put Internet users at over 20 million by the end of 2000. Not only will this technology explosion benefit U.S. information technology industry, which is the best and most competitive in the world, but it will also give the Chinese people unfettered access to outside influences and ideas through satellites and the Internet. This cannot help but promote greater economic and political reform in China.

Of course, the trade agreement with China will not, by itself, resolve serious human rights issues in China. At the same time, I believe that WTO membership will bring fundamental changes to China that will advance our goals in this area.

#### The Vote on PNTR

This Friday, I will head back to China with a group of your Congressional colleagues. Secretary Glickman will follow with another Congressional delegation during the last week in April. We will be meeting with Chinese officials and will visit new privately owned businesses and older state-run enterprises. We hope that this visit will give undecided Members the opportunity to observe the changes in China first hand and enable them to make an informed decision on PNTR.

A few months ago when the President asked me to lead the Administration's efforts to seek Congressional approval of PNTR, I discovered that there was a lot of misunderstanding about what the vote on PNTR means. Let me explain. Normal trade relations, formerly called most-favored-nation or MFN treatment, is the same trading status we extend to the rest of the world, with very few exceptions. The legislation would remove China from the annual NTR renewal process under Jackson-Vanik, under which we have extended NTR to China since 1980.

PNTR is required to meet our obligation to treat all WTO members the same. WTO members are required to grant each other ~~A~~any advantage, favor, privilege or immunity~~@~~provided to other countries ~~A~~immediately and unconditionally.~~@~~ The United States currently extends PNTR to all

countries with whom we share and enjoy the benefits of the WTO, without the condition of annual review. Not surprisingly, China seeks identical treatment upon its accession -- and WTO rules require it to be provided.

It is worth emphasizing that this will not be a vote on whether China will join the WTO. Once China completes its accession negotiations with other countries, its application to join the WTO will move forward, with or without United States participation. However, Congress' upcoming vote on PNTR will determine whether the United States will enjoy the economic benefits created by China's WTO membership. A vote against PNTR will mean ceding our share of this newly opened market to our economic competitors in Europe, Asia and elsewhere. As President Clinton has stated, "We must understand the consequences of saying no. If we don't sell our products to China, someone else will step into the breach, and we will spend the next 20 years wondering why in the wide world we handed over the benefits we negotiated to other people."

The vote on PNTR also will not affect whether the Chinese will have access to the American market and consumers. They already do. The United States has the most open market in the world. A vote for PNTR will give us access to the previously closed Chinese market and level the playing field in a dramatic way.

I appreciate the thoughtfulness and consideration Members have brought to the debate. I am optimistic that once all the pros and cons have been weighed the Congress will vote its support for PNTR. I was very encouraged by last week's announcement by Speaker Hastert that the PNTR vote in the House of Representatives will be held the week of May 22. Senate Majority Leader Lott has promised a vote in the Senate immediately after the Memorial Day recess. These are positive developments.

When President Nixon first went to China, more people saw the pictures and heard his words than on any occasion in the history of the world. During that visit he paraphrased Abraham Lincoln, saying "What we say here would not be long remembered. What we do here can change the world." Thirty years later, we now face another history-making foreign policy choice, identified by President Clinton as his top remaining foreign policy goal. After all the speeches, after all the arguments, after all the voices on both sides of the debate, what we say is not as important as what we do. And on this occasion we should act to promote further reform and the rule of law in China and to integrate China into the world economy. It is in our economic, strategic and national security interests to do so.

Thank you, Mr. Chairman, that concludes my statement. I will now be happy to answer any questions you may have.